GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2572
ANSWERED ON:18.03.2005
USE OF FOREIGN EXCHANGE RESERVE
Satpathy Shri Tathagata

Will the Minister of FINANCE be pleased to state:

(a) Whether the Associated Chambers of Commerce and Industry of India (ASSOCHAM) has mooted a proposal to the Reserve Bank of India to allow forex reserves for increased credit assistance to developing economies and emerging market by way of lines of credit as reported in the Hindu dated March 4, 2005;

(b) If so, whether ASSOCHAM has also suggested utilization of foreign exchange reserves for the purpose of progressive retirement of high cost of external debt, which the Government has incurred over the years of high interests rates; and

(c) If so, the reaction of the Government on the points suggested by the ASSOCHAM?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE(SHRI S.S.PALANIMANICKAM)

(a), (b) & (c) : In a recent representation submitted to the Government and the Reserve Bank of India (RBI), the Associated Chambers of Commerce and Industry of India (ASSOCHAM) had suggested, inter alia, the following:

(i) increasing credit assistance to developing countries and/or emerging markets for India via lines of credit etc.

(ii) encouraging joint ventures/collaborations abroad through flexible and positive approach for liberal remittance of capital funds;

(iii) progressive retirement of high cost external debt;

(iv) placement of forex reserves in short term treasury bills, government bonds/securities & `AAA` rated corporate bonds etc. abroad;
(v) innovative schemes for financing forex content in infrastructure projects like ports etc. out of forex reserves by creating a special purpose vehicle, and

(vi) creating an avenue out of forex reserves for providing export finances in foreign currency to project exports and high value capital goods at concessional rates.The Union Budget (2005-06) has proposed to fund large infrastructure projects through a financial special purpose vehicle (SPV). In this context, it has been indicated that when large infrastructure projects are implemented, the foreign exchange resources can be drawn for financing necessary imports. The SPV is meant to especially benefit large projects in roads, ports, airports and tourism. The projects will be appraised by an Inter-Institutional Group of banks and financial institutions. The SPV will lend funds, especially debt of longer term maturity, directly to the eligible projects to supplement other loans from banks and financial institutions. The borrowing limit of the SPV for the current year has been fixed at Rs 10,000 crore.